**Exhibit No. ___ T (JT-1T)**
**Docket UE-090134/UG-090135**
**and UG-060518 (consolidated)**
**Witnesses: Alan P. Buckley**
**Donald W. Schoenbeck**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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|---|---|---|
| **WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,** | ) | **DOCKETS UE-090134 and UG-090135** |
| | ) | ***(consolidated)*** |
| **Complainant,** | ) | |
| | ) | |
| **v.** | ) | |
| | ) | |
| **AVISTA CORPORATION, d/b/a AVISTA UTILITIES,** | ) | |
| | ) | |
| **Respondent.** | ) | |
| . . . . . | ) | |
| | ) | |
| **In the Matter of the Petition of** | ) | **DOCKET UG-060518** |
| | ) | **(*consolidated*)** |
| **AVISTA CORPORATION, d/b/a AVISTA UTILITIES,** | ) | |
| | ) | |
| **For an Order Authorizing Implementation of a Natural Gas Decoupling Mechanism and to Record Accounting Entries Associated With the Mechanism.** | ) | |
| . . . . . | ) | |

# JOINT TESTIMONY OF
# ALAN P. BUCKLEY
# AND
# DONALD W. SCHOENBECK

***Power Supply Issues***

**ON BEHALF OF STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**
**AND**
**INDUSTRIAL CUSTOMERS OF THE NORTHWEST UTILITIES**
**August 17, 2009**

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| Exhibit No. ___ (JT-3) | WNP-3 Prices |

## I. INTRODUCTION

**Q. Please state your name and business address.**

A. My name is Alan P. Buckley. My business address is 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504. My qualifications are contained within Exhibit No. ___ (APB-1).

My name is Donald W. Schoenbeck. My business address is 900 Washington Street, Suite 780, Vancouver, Washington 98660. My qualifications are contained within the Industrial Customers of Northwest Utilities Rate Design Testimony Exhibit No. ___ (DWS-2).

## II. SCOPE AND ORGANIZATION OF TESTIMONY

**Q. What is the purpose of your testimony?**

A. The principal purpose of this testimony is to address Avista Corporation's ("Avista" or "the Company") pro forma year power supply expense level, as contained in the Company's January 2009 General Rate Case Direct Testimony filing. The results of our analysis and proposed adjustments are reflected in Exhibit No. ___ (JT-2).

**Q. How is the remainder of your testimony organized?**

A. The testimony is divided into four sections. Section I contains the introduction. Section II describes the scope and organization of this testimony. Section III summarizes the Parties' recommended adjustments to the Company's pro forma year

power supply expense, and Section IV presents the detailed explanation of Staff and ICNU's recommended adjustments.

## III. SUMMARY OF STAFF AND ICNU RECOMMENDATIONS

**Q. Please summarize Staff and ICNU's recommended adjustments to the Company's pro forma year power supply expense levels.**

A. The Washington Utilities and Transportation Commission ("UTC" or "Commission") should adopt the pro forma year power supply expense adjustments shown in Exhibit No. ___ (JT-2), lines 2 through 6. The total of these adjustments reduces Avista's Base Level Power Supply Expense on a system basis by approximately $42.4 million to a total of approximately $195.3 million as shown on lines 7-8 of Exhibit No. ___ (JT-2). This compares to the Company's projection of $237,635,000 presented on page 3 of Exhibit No. ___ (WGJ-1T), and in Exhibit No. ___ (WGJ-2). Staff and ICNU's recommended adjustments result in a reduction of Washington allocated Net Power Supply Expense of approximately $27.4 million to a $126.1 million level. Exhibit No. ___ (JT-2), lines 7-8. The revenue requirement effect of these adjustments is presented in Staff Exhibit No. ___ (DPK-2).

**Q. Were Staff and ICNU's adjustments determined on a combined basis?**

A. No. Only the natural gas price update, contract update, and water filtering effect adjustments were carried out together. The other adjustments are separate, independent estimates using a model run incorporating the adjustments identified above as the base level. To determine the actual overall effect of all accepted adjustments, they should be carried out as a package and included as part of the Company's compliance filing. These estimates, however, are sufficiently accurate for the Commission to rely upon in making its decision. Furthermore, changes to loads and/or net power supply expense will affect the calculation of the production factor adjustment, which is reflected in Exhibit No. ___ (DPK-2).

## IV. RECOMMENDED ADJUSTMENTS TO BASE LEVEL NET POWER SUPPLY EXPENSE

### A. Retail Load Adjustment

**Q. What pro forma period load assumption did the Company use in this proceeding for purposes of determining pro forma year power supply expenses?**

A. Avista used pro forma system loads (January 2010 through December 2010) that are approximately 5.1 percent higher than the October 2007 through September 2008, test period loads. This increase in loads was identified by the Company as one of the principal causes of increased pro forma year power supply expense levels.

**Q. Do Staff and ICNU agree with the level of pro forma year retail loads used by the Company?**

A. No. We believe it is clear that the current local, state, and national economic conditions have had a significantly sufficient effect on Avista's forecast pro forma retail loads that the issue should be revisited. Furthermore, actual evidence indicates that the forecast level of growth is not occurring. Based on the Company's Energy Recovery Mechanism monthly reports, retail sales have been down in every month through June, with one exception, and are lower than authorized pro forma levels from the previous rate case for the year to-date. While we recognize that loads are affected by month-to-month weather conditions, the Company's recent history of weather-normalized electric load growth does not support the 5.1 percent load growth rate forecast that Avista proposes to determine pro forma power supply expense levels in this proceeding. Avista's 2008 total system weather-normalized electric load increased 0.4 percent from 2007 levels; moreover, 2007 experienced a lower growth rate than previous years. In addition, Avista's weather normalized electric load actually decreased 3.9 percent from the January/February 2008 to January/February 2009 timeframe. Finally, Avista appears to have recognized these ongoing economic conditions by reducing certain 2009 budgeted capital amounts, even after their initial approval by the Board of Directors.

**Q. Please describe your proposed load forecast adjustment.**

A. Recognizing the effect that load has on net power supply expense—approximately $5.9 million for every 1 percent reduction—and a desire to recognize the potential

for some economic recovery, we have reduced the Company's pro forma load forecast by 3 percent to a 2.1 percent increase from test year levels. Even though no or even negative weather normalized growth appears to be occurring as late as June 2009, the 2.1 percent increase still recognizes the potential for load growth during the pro forma period. We also note that if net power supply expense increases due to unexpected load growth, they will be recovered, with sharing, through the Company's Energy Recovery Mechanism.

**Q. What is the effect of Staff and ICNU's load forecast adjustment?**

A. The decrease in forecast pro forma retail loads results in a $13.467 million reduction in pro forma year power supply expense on a system basis, or $8.7 million reduction for Washington allocated at the net power supply expense level.

**B. Hydro Filtering Adjustment**

**Q. Please describe the proposed water normalization or Hydro Filtering Adjustment.**

A. Staff and ICNU propose the Water or Hydro Filtering Adjustment in this proceeding as a method to recognize the manner in which normalization is used to set base power costs while incorporating a Power Cost Adjustment ("PCA") mechanism (or Energy Recovery Mechanism or "ERM," which is what Avista calls its mechanism). The concept of a water or hydro filter recognizes that when a PCA is in place, the customers will share the costs and benefits of unusual power cost extremes and there

is, therefore, no need to include those extreme circumstances in the calculation of normalized power cost. In its Order 08 in Dockets UE-061546 and UE-060817 (consolidated), the Commission agreed with this concept of using a narrower range of hydroelectric conditions for purposes of normalizing power costs (see Order 08 at ¶¶ 88, 89). There are several approaches to how water, or hydro, filtering may be implemented. For example, using readily available data already incorporated into power supply modeling efforts, filtering may be based on total cumulative annual water, or hydro conditions, or as Staff and ICNU propose in this proceeding, monthly hydro data.

**Q. Please explain the proposed use of monthly water, or hydro data for purposes of filtering in this proceeding.**

A. While implementing filtering using annual water or hydro data is the simplest method, it does not reflect possible month-to-month variations in water conditions which may occur over long periods. For example, different years with the same amount of annual water flow, and thus hydro generation, may have completely different month-to-month variations. This can be important because in the Pacific Northwest power costs can vary significantly by month, particularly due to the timing and extent of the annual snow melt and rainfall patterns. As a response to the possible monthly variations experienced even during years with similar annual water conditions, Staff and ICNU proposes that water filtering be carried out on a monthly basis for this proceeding.

**Q. How is this methodology implemented?**

A. Only those months of each of the water years that are within one-standard deviation of the monthly means, for all years, are included for the determination of hydro generation and normalized net power supply costs. This methodology was implemented using the power supply model results that include the natural gas price and contract update discussed below in this testimony.

**Q. What is the effect on Washington Net Power Costs and revenue requirements?**

A. This methodology results in a $1.08 million reduction in pro forma year power supply expense on a system basis or an approximately $0.7 million reduction in Washington allocated net power supply expense.

**C. Natural Gas Price and Contract Update**

**Q. How did Avista derive the gas prices used in the AURORA modeling?**

A. Avista used forward natural gas prices based on a 3-month average from September 1, 2008, to November 30, 2008, of calendar-year 2010 monthly forward prices, for the major trading hubs. Gas costs have a significant impact on the overall revenue requirement, as each 10 cent per dekatherm change impacts power supply costs on a system basis by roughly $1.33 million.

**Q. How do you propose that gas prices be treated in this proceeding?**

A. Staff and ICNU's adjustment reflects a gas price update to reflect the forward prices quoted from the period of April 7, 2009, through July 6, 2009. The following table compares the average rate period value for two trading hubs from incorporating this update with the "as filed" price used by Avista.

Table 1

Gas Price Comparison
($ per MMBTU)

| Market Hub | As Filed (9/1/08 to 11/30/08) | Update (4/7/09 to 7/6/09) | Decrease |
|---|---|---|---|
| Stanfield | $7.83 | $5.61 | $2.22 |
| Sumas | $8.02 | $5.69 | $2.33 |

**Q. Has Avista continued to execute forward purchases or sales for deliveries during the rate period?**

A. Yes. For the rate period, Avista has continued to enter into both forward gas supply and forward electric energy transactions as part of its normal hedging strategies.

**Q. Were these transactions included in the filed revenue requirement in this proceeding?**

A. No. However, it is appropriate to include these transactions as part of any update in net power costs, for the same reason that it is appropriate to continue to update gas prices in an effort to best reflect rate year revenue requirements as this proceeding continues.

**Q. What impact does the natural gas price and contract update have on the Washington revenue requirement in this proceeding?**

A. Taken together, the natural gas price and contract update adjustment reflected in our recommendation results in a $26.8 million reduction in pro forma year power supply expense on a system basis or an approximately $17.3 million reduction in Washington allocated net power supply expense.

**Q. Is it possible that the natural gas price and contract update will be adjusted further, up or down, as this proceeding continues?**

A. Yes. Unless the parties agree to set the time period used to estimate pro forma period natural gas prices or agree to use a single best estimate, further updates may be possible, but there must be sufficient time for all parties to review the update prior to the Commission's decision or final order.

## D. Colstrip Availability

**Q. Please address the Colstrip availability issue.**

A. Avista has an approximately 190 megawatt share of the capacity of the Colstrip plant from units #3 and #4. The Company's determination of the availability of the Colstrip units was based upon the performance of these units over the most recent five years (2003 through 2007) available at the time of its filing.

**Q. What adjustments to Colstrip availability are you proposing?**

A. We are simply proposing to update the Company's methodology to include the available 2008 outage rate data that has become available. This produces lower forced outage rates for unit #3 while barely changing the value for Colstrip unit #4. The following table shows the updated forced outage rate calculation:

Table 2

| Colstrip Forced Outage Rate by Unit (Percent - %) | | |
|---|---|---|
| Year | #3 | #4 |
| 2004 | **8.05** | 6.69 |
| 2005 | 8.48 | 5.28 |
| 2006 | 10.15 | 4.38 |
| 2007 | 4.40 | 6.37 |
| 2008 | 0.56 | 4.70 |
| 5 Year Avg. | 6.328 | 5.484 |
| | | |

**Q. What is the effect on Washington Net Power Costs and revenue requirements?**

A. Based on a single average water AURORA run, the Colstrip availability adjustments result in a $0.339 million reduction in pro forma year power supply expense on a system basis or $0.219 million reduction in Washington allocated net power supply expense.

**E. WNP-3 Adjustment**

**Q. How does the Company calculate WNP-3 related costs?**

A. The WNP-3 contract calls for pricing the power based upon the cost of certain "surrogate" power plants. In addition, the contract contains certain floor and ceiling provisions to limit the price risk associated with the power. For rate making purposes, the Company calculates the expected price for the WNP-3 power using the mid-point of the floor and ceiling values coupled with an historical escalation rate to project the test period price. For this case, this method results in a price of $40.37/MWh for the months of January through April 2010, and a price of $41.39 for the remaining months.

**Q. What changes to this methodology are you proposing?**

A. Staff and ICNU are proposing to begin using actual payments made to Bonneville Power Authority as it relates to energy obtained through the WNP-3 agreement. We believe that although Avista's method may have had merit when it was originally adopted, there is now a long history of actual payments made under this agreement. We feel it is now appropriate to base the test period cost using the actual prices paid. This method is also the approach used by the other utilities receiving WNP-3 replacement power from Bonneville.

**Q. How did you determine the WNP-3 prices for the test period?**

A. The WNP-3 prices were escalated to the test period using the historical escalation rate from the actual prices paid under this agreement. These prices are shown on Exhibit No. ___ (JT-3).

**Q. What is the effect on Washington net power costs and revenue requirements?**

A. As shown in Exhibit No. ___ (JT-2), the WNP-3 adjustment results in a $0.671 million reduction in pro forma year power supply expense on a system basis or $0.433 million reduction in Washington allocated net power supply expense. This result is based on a single average water year AURORA run.

**Q. Does this complete your testimony?**

A. Yes.